

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY UTILITIES)	
COMPANY FOR AN ORDER AUTHORIZING)	CASE NO.
THE ISSUANCE OF SECURITIES AND THE)	2006-00187
ASSUMPTION OF OBLIGATIONS)	

O R D E R

On May 4, 2006, Kentucky Utilities Company ("KU") filed an application for authority to issue First Mortgage Bonds in an aggregate principal amount not to exceed \$16,693,620 and to assume certain obligations in connection therewith, represented by one or more loan agreements with Carroll County, Kentucky, in connection with the simultaneous issuance by Carroll County of Pollution Control Bonds in an aggregate principal amount not to exceed \$16,693,620. The proceeds of the Carroll County Pollution Control Bonds will be loaned to KU, which will use the proceeds to provide permanent financing for a portion of the costs associated with the pollution control facilities KU plans to construct at its Ghent Generating Station in Carroll County.¹

The pollution control facilities to be constructed include new flue gas desulfurization facilities to serve Unit Nos. 2, 3, and 4 at KU's Ghent Generating Station

¹ The Commission previously approved Pollution Control Bond financing for the construction at the Ghent Generating Station, See Case No. 2005-00183, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated June 20, 2005; and Case No. 2005-00357, Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations, final Order dated October 14, 2005.

in Carroll County, Kentucky, as well as solid waste facilities, additions and improvements. The Commission reviewed KU's application for authority to construct those pollution control facilities and granted KU a Certificate of Public Convenience and Necessity on June 20, 2005 in Case No. 2004-00426.²

KU's proposed First Mortgage Bonds will be used to secure and collateralize the Carroll County Pollution Control Bonds. Because of the historical spread between long-term fixed interest rates and short-term rates, all or a portion of the Pollution Control Bonds may be issued initially with interest rates that fluctuate on a weekly, monthly or other basis. In order to obtain the most favorable terms and conditions and to limit its exposure to variable interest rates, KU requests authority to enter into remarketing agreements, credit agreements, hedging agreements and such other agreements as set forth in its application in an aggregate amount not to exceed the original principal amount of the bonds, \$16,693,620.

The Commission, having considered the evidence of record and being otherwise advised, finds that the issuance of the proposed First Mortgage Bonds and the Carroll County Pollution Control Bonds and the assumption of obligations in connection therewith, as set out in KU's application, are for lawful objects within the corporate purposes of KU's utility operations, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to

² Case No. 2004-00426, The Application of Kentucky Utilities Company for a Certificate of Public Convenience and Necessity to Construct Flue Gas Desulfurization Systems and Approval of Its 2004 Compliance Plan and Recovery by Environmental Surcharge.

perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. KU is authorized to issue and deliver the new First Mortgage Bonds in one or more series in an aggregate principal amount not to exceed \$16,693,620 as set forth in its application.

2. KU is authorized to execute, deliver and perform its obligations under the loan agreements with Carroll County, Kentucky and under any guarantees, remarketing agreements, hedging agreements, auction agreements, bond insurance agreements, credit agreements and such other agreements and documents as set forth in its application.

3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

4. KU shall agree only to such terms and prices that are consistent with the parameters set out in its application.

5. KU shall, within 30 days from the date of issuance, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate or rates, and all fees and expenses, including underwriting discounts or commissions, or other compensation, involved in the issuance and distribution thereof. In addition, KU shall include a detailed explanation as to how the interest rate alternative chosen represents the most reasonable interest rate available at the time of issuance. The explanation shall include a description of the

specific interest rate management techniques and interest rate management agreements used by KU for each issuance, as well as copies of any executed interest rate management agreements. If a variable rate is chosen, KU shall file a detailed description of the criteria to be periodically applied in determining whether the variable rate should be converted to a fixed rate.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 16th day of June, 2006.

By the Commission

ATTEST:



Executive Director